



Open meeting minutes – February 9, 2021

Professional Ethics Division Professional Ethics Executive Committee

The Professional Ethics Executive Committee (PEEC or committee) held a duly called meeting on February 9, 2021. The virtual meeting convened at 10:00 a.m. and adjourned at 3:25 p.m.

We sent [agenda materials for this meeting](#) to PEEC members and observers on January 22, 2021 and posted them to [aicpa.org](#).

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Attendance

Members

Brian Lynch, Chair
Catherine Allen
Christopher Cahill
Thomas Campbell
Robert Denham
Anna Dourdourekas
Anika Heard
Kelly Hunter
Sharon Jensen
Jennifer Kary
Jeff Lewis
Alan Long
William McKeown
James Newhard
Stephanie Saunders
Lewis Sharpstone
Lisa Snyder
Peggy Ullmann
Douglas Warren
Lawrence Wojcik

Guests

See exhibit 1 in the appendix of this document.

AICPA Professional Ethics Division staff

James Brackens, Vice President –
Ethics and Practice Quality
Toni Lee-Andrews, Director
Ellen Gorla, Associate Director
Jennifer Clayton, Senior Manager
Michele Craig
Elaine Bagley
Sarah, Brack
Emily Daly
Liese Faircloth
Jennifer Kappler
Iryna Klepcha
Kelly Mullins
Melissa Powell
Karen Puntch
Michael Schertzinger
John Wiley
Summer Young
Shannon Ziemba

Key votes in this meeting

Motions approved

- Re-exposure of proposed interpretations “[Responding to Noncompliance With Laws and Regulations](#)”
- Adoption of new interpretation “[Staff Augmentation Arrangements](#)” and related [revisions](#) with effective date of November 30, 2021
- Adoption of revised interpretation “[Records Requests](#)”

Welcome

Mr. Lynch welcomed the committee and discussed administrative matters.

NOCLAR

Mr. Denham updated PEEC on the task force’s activities since the November meeting ([agenda item 1A](#)) and requested PEEC’s approval to re-expose the proposed interpretations “Responding to Noncompliance With Laws and Regulations” (NOCLAR; [agenda item 1B](#)).

Items of note include the following:

- Update on Auditing Standards Board (ASB) activities and revisions for NOCLAR to AU-C section 210
- Revisions to the 2017 PEEC NOCLAR exposure draft

To review these in detail, [please see agenda item 1A](#) in the February meeting agenda.

Discussion

Exposure period

PEEC’s and the ASB’s exposure drafts will be issued at the same time and will have the same comment period.

PEEC and ASB representatives discussed the comment period with an eye toward ensuring that state boards will have enough time to consider the implications of the new guidance.

PEEC and the ASB agreed that the comment period will end June 30, 2021.

Effective date

PEEC’s proposed effective date for its interpretations is one year after the final interpretations are published in the *Journal of Accountancy*. ASB’s proposed effective date is December 15, 2022.

A committee member raised concerns about the effective date of ASB’s proposal and

preparations auditors will need to make if the standard is adopted.

The ASB believes impediments to adoption are not great enough to warrant a change in the effective date of their standard, which is December 15, 2022. However, the exposure draft has a question about whether the exposure period is appropriate, so there is a potential for change.

Exclusion of certain nonattest services

The committee agreed to remove the phrase “and subject to” from paragraph .06b of the interpretation for members in public practice.

The concern was that the phrase limits the exception to only engagements covered by the Statement on Standards for Forensic Services No. 1.

A litigation or investigation engagement as defined in, and subject to, the AICPA’s Statement on Standards for Forensic Services No. 1.

The paragraph was revised as follows:

A litigation or investigation engagement as defined in the AICPA’s Statement on Standards for Forensic Services No. 1.

Explanation of noncompliance in paragraph .09

The committee agreed to eliminate the examples of action that could cause substantial harm from paragraph .09 of the interpretation for members in public practice because these examples (i.e., perpetration of a fraud resulting in significant financial losses to investors and breaches of environmental laws and regulations endangering the health or safety of employees or the public) are better suited for member enrichment materials than for inclusion in the code.

Appropriate source of information

A question arose about whether complying with the last sentence [in paragraph .20 of agenda item 1B](#) could be construed as providing legal advice. The committee retained the phrase because this sentence doesn’t impose a requirement on the member, rather only suggests the member provide the attest client with appropriate sources of information so the client can understand legal or regulatory responsibilities related to the NOCLAR.

Outreach to members in business

A committee member noted the need for outreach to members in business as this interpretation will affect them if it is adopted.

Vote

The committee voted unanimously with no abstentions to release the revised exposure draft [Proposed interpretations and definition “Responding to Noncompliance With Laws and Regulations.”](#)

The comment period ends June 30, 2021.

Staff augmentation

Ms. Snyder updated PEEC on the task force's activities since the December meeting ([agenda item 2A](#)) and requested approval to adopt the new interpretation "Staff Augmentation Arrangements" ([agenda item 2D](#)) and related revisions to other interpretations ([agenda items 2E–2H](#)).

Items of note include the comment letter summary ([agenda item 2B](#)) and analysis ([agenda item 2C](#)).

Discussion and questions for the committee

Following are the questions from agenda item 2A the task force posed to the committee as well as answers.

Does the committee agree with the task force's recommendations as outlined in agenda item 2A?

In discussion of this question, a committee member representing the National Association of State Boards of Accountancy (NASBA) noted that NASBA's comments on proposed language were not accepted and asked whether the task force would consider addressing some of these issues in future Qs & As.

Ms. Snyder affirmed that the task force would consider this. The committee raised no other concerns.

Does the committee still believe that staff augmentation arrangements should be permitted in any circumstances?

The committee raised no concerns on this point.

Does the committee still believe that staff augmentation arrangements should be permitted in certain circumstances?

The committee raised no concerns on this point and indicated agreement.

Should additional nonauthoritative guidance be considered for significant hardship, unexpected situation, not expected to reoccur, and nonattest services that have minimal oversight?

A NASBA representative noted a fact pattern NASBA submitted that the committee might find helpful in drafting Qs & As and added that the 30-day requirement could also be addressed as a Q&A.

The committee raised no other concerns on this point.

Does the committee believe that the term “rebuttable presumption of 30 days” is still appropriate based on feedback received?

Committee members noted two concerns:

- NASBA has concerns about slippage. Members may see “rebuttable presumption” and extend arrangements beyond 30 days. This doesn’t seem to align with PEEC’s intent in the exposure draft. That is, a stricter limit should be in place.
- With NASBA’s concerns about language (noted in the previous list item) and the GAO concerns about the subject nature of the safeguards, challenges could be experienced with getting more state boards to adopt the AICPA code.

The task force chair noted that given the robust safeguards (i.e., expected not to exceed 30 days, unexpected hardships, and significant hardships) required to perform staff augmentation services, the service is essentially prohibited unless it is truly in the public interest to provide that service.

The committee raised no other issues on this point.

Does the committee agree with the recommendation of the task force on proposed exceptions for certain affiliates?

The committee raised no concerns on this question.

Does the committee agree with the task force that the proposed exception for engagements under the Statements on Standards for Attestation Engagements (SSAE) other than agreed upon procedures (AUP) engagements should not be allowed?

Committee members noted the following during the discussion of this question:

- If the service does not relate to the subject matter of the AUP engagement, it makes sense to allow the AUP exception to other SSAE engagements where the self-review threat can be controlled.
- Others believed that for SSAE engagements other than AUPs, there is a higher level of independence required, so the self-review threat becomes more prominent.

There was discussion of the simultaneous employment threat, and the committee concluded that threat would not be any different between the different level of assurance services offered.

The task force chair noted that though some commenters supported the exception for SSAE engagements other than AUPs, other commenters and a couple of task force members believed that conceptually there are opinions being provided, and in some cases this is equivalent to an audit, so they believed the self-review threat for that level of assurance was too high.

The committee raised no other concerns with this.

Does the committee agree that the exception for AUP engagements should still be allowed?

The committee raised no concerns on this point.

Does the committee believe that six months is a long enough delayed effective date?

The committee raised no concerns on this point.

Votes

The committee voted unanimously with no abstentions to adopt the new interpretation "[Staff Augmentation Arrangements](#)" and related revisions to the following interpretations:

- Client Affiliates
- Agreed-Upon Procedure Engagements Performed in Accordance with SSAEs
- Scope and Applicability of Nonattest Services

The committee also voted unanimously with no abstentions on an effective date of November 30, 2021.

The new interpretation and revisions to existing interpretations will be live in the [online code](#) with the March 2021 update and notice will appear in the May 2021 issue of the *Journal of Accountancy*.

Records requests

Ms. Ullman updated PEEC on the task force's activities since the November meeting ([agenda item 3A](#)) and requested approval to adopt the revised interpretation "Records Requests" ([agenda item 3C](#)) and input on four related Qs & As ([agenda item 3E](#)).

Discussion and questions for the committee

Does the committee have any concerns with staff issuing the Qs & As related to records requests?

Following are points for clarification raised by the committee as well as answers:

- With regard to returning client documents in a different format, if the member no longer has the original papers, can copies be provided from the member's portal?

The task force did not address this in the Qs & As but believes that any usable format is acceptable.

- With regard to returning client documents to a client who has moved from the member's local area, a concern was raised about the phrase "by any means necessary" being too strong.

To address this concern the committee agreed to change the language to "using

reasonable means.”

Does the committee believe the member should have an obligation to provide records to divorcing or divorced spouses?

Committee members discussed the following:

- What if a spouse requests records several years later, even after the records retention date? Are members now in a position that they need to provide every tax return twice?
- Given that PEEC is aligning AICPA requirements to the IRS circular 230, what if circular 230 changes in the future? Is there an issue then?

After discussion, a committee member pointed out that the concerns expressed have more to do with risk management and therefore should not be addressed in the code as ethical considerations.

Does the committee agree with the edits to the interpretation from what was presented in November?

A committee member requested that “if applicable to” be added before “beneficiary” in the final sentence of paragraph .07.

There were no other substantive revisions. The committee agreed with the edits and the 60-day delayed effective date.

Vote

The committee voted unanimously with no abstentions to adopt the revised interpretation “[Records Requests](#).”

The revisions will be live in the [online code](#) with the March 2021 update and notice will appear in the May 2021 issue of the *Journal of Accountancy*.

The revisions will be effective July 31, 2020.

SEC convergence

Ms. Kary updated the committee on the task force’s activities since the November meeting ([agenda item 4A](#)). The committee had no concerns with the task force’s proposed charge. The committee expressed general support of the task force’s direction on the loan revisions outlined in [agenda item 4B](#), proposed a clarifying edit and asked the task force to consider clarifying the following:

- What mortgages are intended to be included in the home mortgage exception.
- That the \$10,000 cap on outstanding consumer loans means that the balances on consumer loans from any one lender must be aggregated. For example, if purchasing

furniture on credit from one entity and cell phones on credit from another entity, if the lender used to finance these two purchases is the same, the member must aggregate the balances.

- Who the parties are in the loan exception provision of the “Client Affiliates” interpretation

The task force will address these concerns and also present its recommendations to address the SEC’s revisions related to mergers and acquisitions in May.

Compliance audit

Ms. Miller updated the committee on the task force’s activities since the December meeting. Details are in exhibit 2 in the appendix of this document.

The committee had no discussion and expressed no concerns with the task force charge (slide 4 of exhibit 2).

IFAC convergence

Ms. Brack updated the committee on the task force’s activities since the December meeting.

In its January meeting, the task force concluded that the AICPA code is substantially converged with IFAC on role and mindset. The task force did not propose revisions for PEEC to consider.

The task force does think that the concept of an inquiring mind and bias application guidance that were included in the pronouncement would be useful to include in certain nonauthoritative guidance published by the AICPA.

Staff and the task force will work on these changes and bring them to PEEC for final approval.

Details are in exhibit 3 in the appendix of this document.

IESBA update

Ms. Gorla updated the committee on the task force’s activities since the December meeting ([agenda item 5A](#)):

- IESBA issued its [public interest entity \(PIE\) exposure draft](#) and division staff is in the process of analyzing it.

The main takeaway is that auditors of public interest entities or PIEs are subject to more robust independence standards and in order to be a PIE there has to be significant public interest in the financial condition of the entity.

The proposal provides broad categories of entities that IESBA believes should be considered by local jurisdictions as PIEs but will allow jurisdictions to refine these categories.

- IESBA adopted their nonassurance services ([agenda item 5B](#)) and the fees ([agenda item 5C](#)) projects at their December meeting and division staff is waiting for the final standards and basis documents before proceeding with convergence projects.
- The purpose of the engagement team project is to ensure that the international independence standards provide clear and consistent guidance on independence for
 - engagement quality reviewers who are not in the firm or network;
 - component auditors who are performing audit procedures and who are outside of the audit firm's network (i.e., individual independence requirements); and
 - the firms that these component auditors are in (i.e., firm independence requirements).

At IESBA's December meeting, the task force presented their revised recommendations. These are outlined in [agenda item 5D](#).

Details are in exhibit 4 in the appendix of this document.

Statements on Standards for Tax Services

Ms. Saunders updated the committee on the task force's activities since the December meeting.

The task force is still working to get input from various committees before the draft of the revised standards goes to the general membership for comment. It is anticipated that these meetings and information gathering will continue until May.

The task force will update PEEC again at the May meeting and expects to issue the exposure draft by the end of 2021.

Approval of November and December meeting minutes

The committee voted to approve the minutes of the [November](#) and the [December](#) meetings.

Appendix

Exhibit 1: Guests in attendance at the February 2021 meeting

	Name	Company
1.	Barbara Andrews,	AICPA, Director – Forensics, Technology and Management Consulting
2.	Teresa Bordeaux	AICPA, Senior Manager – Governmental Auditing and Accounting
3.	Mike Glynn	AICPA, Senior Manager – Audit and Attest Standards
4.	Henry Grzes	AICPA, Lead Manager, Tax Practice and Ethics
5.	Carl Peterson	AICPA, Vice President, Small Firms – PA
6.	Kent A. Absec	Idaho State Board of Accountancy
7.	Sonia Araujo	PwC
8.	Coalter Baker	Baker and Cockburn, PLLC CPAs
9.	Paul Balas	State of Michigan Board of Accountancy
10.	Rita Barnard	Kansas Society of CPAs
11.	Ian Benjamin	Chair–AICPA Enforcement Subcommittee
12.	Claire Blanton	RSM US LLP
13.	Tammie Brown	U.S. Department of Health and Human Service
14.	D. Boyd Busby	Alabama State Board of Public Accountancy
15.	David Kirklan Cloniger	RSM US LLP
16.	Allan Cohen	RSM US LLP
17.	Giles T. Cohen	PwC

18.	Harry Cohen	KPMG
19.	Colleen Conrad	NASBA
20.	Karen Cookson	U.S. Department of Housing and Urban Development
21.	Debbie Cutler	Debra A. Cutler CPA PC
22.	James Dalkin	U.S. Government Accountability Office
23.	George Dietz	PwC
24.	Anna Durst	Nevada Society of CPAs
25.	Dan Dustin	NASBA
26.	Jason Evans	BDO
27.	Sarah Ference	CNA Insurance
28.	Lea Fletcher	KPMG
29.	Wendy Garvin	Tennessee State Board of Accountancy
30.	Harrison E. Greene, Jr.	Federal Deposit Insurance Corporation
31.	Andrew Gripp	Crowe LLP
32.	Elliot Hendler	Elliot Hendler, CPA
33.	Annette Hill	Anderson ZurMuehlen & Co.
34.	Pamela Ives Hill	Missouri Society of CPAs
35.	Kelly Hnatt	External Counsel
36.	Becca Huber	New York State Society of CPAs
37.	Frank Jakosz	CapinCrouse LLP
38.	Nigel James	U.S. Securities and Exchange Commission

39.	Karen Jones	PwC
40.	Kristi Justice	West Virginia Board of Accountancy
41.	Vassilios Karapano	U.S. Securities and Exchange Commission
42.	Elizabeth Knipscheer	Arkansas Society of CPAs
43.	Kimberly Kuhl	KPMG
44.	Tricia LaValle	AICPA Enforcement Subcommittee
45.	Elliot Lesser	Berdon LLP– Retired
46.	Jasdeep Mangat	U.S. Securities and Exchange Commission
47.	William Mann	Mayer Hoffman McCann P.C.
48.	Elizabeth McKneely	Deloitte
49.	Sherri McPherson	Oregon Society of CPAs
50.	Kathleen Meyer	Missouri Society of CPAs
51.	Nancy Miller	KPMG
52.	Angela Miratsky	BKD, LLP
53.	Karen Moncrieff	EY
54.	Christina Moser	Plante Moran
55.	Jessica Mytrohovich	Georgia Society of CPAs
56.	Jan Neal	Deloitte
57.	Jennifer Noble	RSM LLP
58.	Donna Oklok	Accountancy Board of Ohio

59.	Jay Perry	Deloitte
60.	Christine Piche'	CliftonLarsonAllen
61.	Victoria Pitkin	New York State Society of CPAs
62.	Rachel Reardon	Michigan Association of CPAs
63.	J. Michael Reese	The Hanover Insurance Group
64.	Mark Reynolds	Creative Value Consulting LLC
65.	John Robinson	RSM US LLP
66.	Deborah Rood	CNA Insurance
67.	Kathy Savage	Deloitte
68.	April Sherman	CliftonLarsonAllen
69.	Byron Shinn	Carr, Riggs & Ingram, LLC
70.	Rachel Sinks	CliftonLarsonAllen
71.	Ola Marie Smith	State of Michigan
72.	Susan Speirs	Utah Association of CPAs
73.	Annette Stalker	Stalker Forensics
74.	Marc Stepper	Washington Society of CPAs
75.	John M Szczomak	New Jersey Society of CPAs
76.	Joseph Tapajna	University of Notre Dame
77.	Jessica Tomc	EY
78.	Paula Tookey	Deloitte
79.	Stephen Valenti	Steven Valenti, CPA

80.	Shelly Van Dyne	BDO
81.	Sharron Waugh	Tennessee State Board of Accountancy
82.	Jim West	BDO
83.	Les Williford	BDO
84.	Paula Young	EisnerAmper, LLP
85.	Darlene Zibart	Kentucky Society of CPAs
86.	Paul Ziga	Georgia State Board of Accountancy



Compliance Audit Task Force

An update on task force activities and request for approval of the task force's charge

1

Update on task force activities

January 15, 2021 meeting:

- Finalized draft of charge
- Began assessing application in an example

As we discussed at the December PEEC meeting, a survey was sent to practitioners to understand how they are interpreting and applying the independence requirements in their compliance audits, and the task force has reviewed those results.

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Highlights of survey results

A total of 107 responses were received, indicating that

- Approximately 50% of respondents believe additional guidance in this area is needed.
- When performing a compliance audit and the audit of the financial statements for the same attest client, approximately 50% of respondents believe that an evaluation of independence as it relates to the financial statement audit results in an appropriate evaluation of independence for the compliance audit, while half of the respondents believe that a separate independence evaluation is necessary for the compliance audit.
- Of the respondents that perform a compliance audit only for clients (meaning another firm performs the financial statement audit), 80% of those practitioners evaluate independence in the compliance audit the same as they would in the audit of the financial statements and believe that evaluation is appropriate.
- Diversity in practice was also evident in the responses when asked which entities should the independence requirements apply to in a compliance audit that includes a schedule of expenditures for federal awards or a similar schedule versus a compliance audit that does not include such schedule.

3

Response demographics:

Overall:
Government – 20%
Public practice – 80%

Public practice:
<\$1.5M – 22%
>\$10M – 41%

3

Proposed task force charge

To consider how the independence requirements for compliance audits performed under the SASs should be applied and whether those independence requirements should differ in the following circumstances

- When a compliance audit only is performed versus when a compliance audit is performed with the audit of the financial statements of the same attest client, and within these circumstances, consider
 - When the compliance audit includes reporting on a financial statement (for example, a schedule of expenditures of federal awards or comparable schedule), and
 - When the compliance audit does not include reporting on a financial statement (for example, a compliance audit of a proprietary school required by the U.S. Department of Education Office of Inspector General's *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Services Administering Title IV Programs*)

A key component in evaluating how to apply the independence requirements will be to determine what entity should be considered the attest client in the compliance audit, who should be considered the covered member, and whether guidance should differ when there is a single program subject to the compliance audit vs. multiple programs.

The task force believes nonauthoritative guidance is needed, but if during its deliberations, it becomes apparent that a modification to the Code may be needed, the task force will bring the proposed modification back to PEEC.

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The unified voice of AICPA and CIMA

Role and Mindset

IFAC Convergence and Monitoring Task Force

February 9, 2021

1

Final pronouncement released



Reinforce public interest responsibility



Addition of inquiring mind



Enhanced awareness of risk of bias

Effective December 31, 2021

2

2

Code is substantially equivalent



3

3

Revisions to the fundamental principles

Behave in a manner that is consistent with the profession's responsibility to act in the public interest

- Covered by our principles of The Public Interest and Responsibilities

Have the strength of character to act appropriately

- Covered by the Integrity principle and the Integrity and Objectivity Rule

Undue reliance on individuals, organizations, and technology

- Code addresses the substance and additional guidance can be provided through member enrichment materials

Part of maintaining competence requires a continuing awareness and an understanding of technology-related developments

- Code addresses competence and any further detail would be appropriate for member enrichment materials

4

4

Additions to the conceptual framework

Inquiring mind

- Consider the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken;
- Being open and alert to a need for further investigation or other action

Bias

- Highlight the impact of bias on exercising professional judgement and applying the conceptual framework

Code addresses the substance and consider enhancing member enrichment material

5

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Thank you

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The unified voice of AICPA and CIMA

IESBA update

February 9, 2021

Ellen Gorla, Associate Director

1

Public interest entity



Exposure
draft issued



Comments
due May 3rd

2

2

PIE: basic premise

Where the public has significant interest in the financial condition of an entity, auditors of those entities should be subject to more robust ethical requirements so that the public's confidence in the audit and related financial statements is enhanced

3

3

Factors to consider when determining the level of public interest in an entity

Nature of an entity's business or activities and covers those entities that take on financial obligations to the public as a key element of their business model

Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations

Size of the entity

The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure

Number and nature of stakeholders including investors, customers, creditors and employees

The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity

4

4

Broad list

Tightening the definitions

Setting size criteria

Adding or exempting entities

5

5

Broad list



Publicly traded entity



An entity, one of whose main functions is to take deposits from the public



An entity one of whose main functions is to provide insurance to the public



An entity whose function is to provide post-employment benefits



An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public



An entity specified as a PIE by law or regulation to meet the objective of enhancing confidence in the financial statements by enhancing confidence in the audit

6

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Publicly traded entity:

An entity that issues financial instruments that are transferrable and publicly traded.

Nonassurance services and fees proposals



Adopted at the
December meeting



Effective
December 15,
2022

7

7

Tax services

Not provide a tax service or recommend a transaction to an audit client if the service or transaction relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail

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Engagement team: provide clear and consistent independence guidance for

Engagement quality reviewers who are not in the firm or network

Component auditors who are performing audit procedures and who are outside of the audit firm's network

The firms that these component auditors are in

Use the generic term "team" to denote a team of individuals who perform an engagement

9

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Updated individual recommendations

All members of the engagement team be independent of the group audit client.

Would consider providing guidance on what a related entity is for a component within the scope of ISA 600

10

10

Updated firm recommendations

Firm issuing the audit opinion on the group financial statements, and its network firms be independent of

Group audit client and its related entities

Other components scoped in under ISA 600 (Revised)

Component audit firms that are outside of the network

Be independent of component audit client

Group engagement partner responsible for determining that firm made aware of applicable ethical requirements

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